Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)))	CC Docket No. 98-77

Reply Comments of North State Telephone Company In the Notice of Proposed Rulemaking For Access Reform for Carriers Subject to Rate-of-Return Regulation

North State Telephone Company (North State) is an Incumbent Local Exchange Carrier providing telecommunications services to over 120,000 access lines in and around the High Point, Thomasville, and Randleman, North Carolina area. North State is an average schedule rate-of-return carrier which participates in NECA's Common Line and Traffic Sensitive Pools.

North State provides a full complement of retail local and intraLATA communications services and provides intrastate and interstate access services to interexchange carrier customers. The combination of high volume customers and competitive providers in nearby urban areas makes North State vulnerable to competition for local and access services. Therefore, North State has a strong interest in access reform, recovery of Common Line costs, and pricing flexibility.

Policy Issues

Rate-of-Return Carriers are not like Price Cap Companies. As data filed in this proceeding by USTA and JSI demonstrates, the cost characteristics of rate-of-return carriers are very different than the cost characteristics of price cap carriers.[1] JSI estimates that in the year 2008, the combined SLC and PICCs for price cap carrier multi-line business would be

[1] See page 5 of Attachment A (Affidavit of Strategic Policy Research) to USTA's Comments.

$7.14, but would be $23.41 for rate-of-return carriers.[2] The Strategic Policy Research Group notes that "USTA more recently has estimated that, under the FCC proposal, the SLC for multi-line business would immediately go to the $9.00 cap for a number of rate-of-return ILECs without fully recovering the common line costs for those companies, and the CCL for those companies would not be eliminated by 2001. This contrasts sharply with the FCC's expected elimination of the CCL for many price cap ILECs by 1999."[3]

For many rate-of-return carriers, loops are longer, serving less populated subscriber areas; switches are smaller, yet require the same software and sophistication as do switches of the large price cap carriers; and the subscriber base of rate-of-return carriers is less diverse than that of the price cap carriers. While it may be theoretically desirable to restructure rates for certain services, such revisions must reflect the underlying cost differences between price cap and rate-of-return carriers as well as reflect the vast differences in the circumstances surrounding a rate-of-return carrier serving a potentially highly-competitive market adjacent to an area served by a price cap carrier. Such differences not only include in many instances higher per-line loop and switch investment, but also the problem a rate-of-return carrier's inability to spread switch replacement costs out over an extended period due to small number of exchanges.

The Commission should consider reasonable limitations in its implementation of Subscriber Line Charges (SLCs) and Primary Interexchange Carrier Charges (PICCs) caps for customers served by rate-of-return carriers. Due to the nature of the areas served by rate-of-return carriers, the costs of service are higher, which results in higher uncapped SLCs and

---

[2] See JSI Comments at Page 9 for comparison of expected SLC and PICC rates between price cap and rate-of-return carriers in the year 2008.

[3] See page 4 of Attachment A to USTA Comments in this proceeding.

PICCs for rate-of-return carriers. In order to approximate the impact that access restructure has had on the customers of price cap carriers, the Commission should consider setting the cap for SLCs and PICCs for rate-of-return carriers at the average SLCs and PICCs of the price cap carriers.[4]

The Commission must recognize that there are only three feasible methods to recover the Common Line costs assigned to the interstate jurisdiction:

1) through flat-rated charges such as SLCs and PICCs;
2) through per minute rates such as Carrier Common Line (CCL); or
3) through Universal Service Funding.

Since Common Line Costs are generally higher for rate-of-return carriers, this means that if price cap rules were to be adopted for rate-of-return carriers, the SLCs and PICCs for rate-of-return companies would be significantly higher than for price cap carriers. Therefore, the Commission's best course of action would be to resolve Access Reform for rate-of-return carriers in concert with Universal Service revisions.

Should the Commission elect to implement Access Reform for rate-of-return carriers prior to resolution of Universal Service and Separations Reform, North State recommends that the FCC adopt various commenters' suggestions to reduce the regulatory burden on rate-of-return carriers by making many of the rate structure changes and new access rate elements optional for carriers under rate-of-return regulation.[5] As noted by Harris, Skrivan & Associates (HSA), while the economic principles that apply to price cap companies may be equally

[4] See Comments of USTA, JSI, HSA, NTCA FWA, GVNW, ICORE, AllTel, TANE, Virgin Islands and Western Alliance.
[5] See Comments of USTA, OPASTCO, GVNW and Virgin Islands.

applicable to rate-of-return carriers, the cost/benefit ratio of implementing the new rate structures may be too high.[6]

While North State is currently a member of both the Common Line and Traffic Sensitive NECA pools, it has considered exiting the Traffic Sensitive pools and filing its own tariffs.[7] However, the nature of the Commission's proposals in the Notice would make it very difficult for any carrier to be a member of only one of the NECA pools. The Notice proposes to move certain costs from one pool to another, depending on rate levels and rate caps. While price cap carriers can easily move revenues from one basket to another, it is not so easy for rate-of-return carriers, particularly when an individual company may participate in the NECA Common Line Pool but not in the NECA Traffic Sensitive Pool. For a more complete description of the pooling problems associated with the Commission's proposals, see HSA Comments on pages 7 and 8.

North State agrees with USTA's recommendation that the Commission reconsider its requirement to cap non-primary residential SLCs and PICCs at different levels than for primary residential lines.[8] North State has determined that it will be extremely difficult to determine which lines are primary and which are secondary. Customer confusion and dissatisfaction will result in the event a dialogue concerning which line or lines are considered primary and which lines are considered secondary is necessary. A brief review of the FCC's Access Rate Orders

---

[6] See HSA Comments at page 2.

[7] Since North State is an average schedule carrier serving over 50,000 access lines, it is one of the few companies in the Nation with no option to file its own interstate access rates. Therefore, it would need a Waiver of FCC rules in order to file its own interstate tariffs. North State notes that recent revisions to the NECA pooling process, resulting in rate banding for Local Switching and Transport Interconnection rates, has relieved some of the pressures to file its own interstate tariffs.

[8] See USTA Comments at page 9.

for price cap carriers indicates that the larger carriers are not having any better luck with this problem than we expect to have.

As noted by ALLTEL's Comments, pricing flexibility is becoming more important to rate-of-return carriers, especially midsize carriers such as North State. North State supports ALLTEL's Comments that the Commission must create an opportunity for rate-of-return carriers which serve denser markets to respond to competition. North State expects significant competition in its local serving area in the near future. The Comments of the ITTA also point out the unique needs of the midsize carriers, "The continuing thread of midsize company concern is that there is a clear need for reduced regulation, in order to free midsize companies to demonstrate their competitive capabilities and advanced telecommunications potential."[9] Therefore, North State requests that the Commission establish access pricing flexibility rules which will allow responsiveness to a competitive environment.

Specific Recommendations

This section will address specific questions, issues, proposals, and tentative conclusions in the Notice.

In paragraph 4 of the Notice, the Commission requests comment on whether the implementation transition should be varied, as compared to the schedule for price cap carriers. **North State recommends** that the Commission adopt USTA's proposal to cap SLCs and PICCs for rate-of-return carriers at the nationwide average SLC and PICC rates for price cap carriers.[10] This is simple to calculate and results in fair treatment of all subscribers in the Nation.

[9] See ITTA Comments at page 2.
[10] See USTA Comments at page 6.

In paragraph 5 of the Notice, the Commission suggests that pricing flexibility and alternative regulation be addressed in a future Notice. North State supports USTA's proposals related to pricing flexibility and alternative regulation and urges the Commission to pursue a proceeding on a parallel track with access reform.

In paragraph 35 of the Notice, the Commission tentatively concludes to adopt the same access rate structure for rate-of-return LECs as it did for price cap LECs. If the Commission elects to proceed with Access Reform, North State supports this general conclusion, subject to:

1) limiting the caps on SLCs and PICCs,
2) making many of the new rate elements optional,
3) providing default allocators for rate-of-return carriers until such carriers can develop the data for their own allocators, and
4) pricing flexibility.

In paragraph 36 of the Notice, the Commission notes that it will take longer to align rates for rate-of-return carriers. North State agrees with this conclusion and recommends the FCC acknowledge this difference in this proceeding as described in the previous paragraph.

In paragraph 45 of the Notice, the Commission asks for comment on whether it should take a single approach for all rate-of-return carriers. **North State recommends that the Commission take a single approach to rate-of-return carriers.**[11] As recommended by HSA, "*There is no evidence of a need to treat rate-of-return LECs differently due to size or geography served.*"

In paragraph 45 of the Notice, the Commission asks if there are concerns specific to NECA pooling companies which need to be addressed. There are several issues in the

[11] See HSA Comments at page 6.

proposal which will need to be specifically addressed for pooling companies prior to implementation of access restructure. The basic issue which must be dealt with is the movement of costs between the Common Line Pool and the Traffic Sensitive Pool. This is made more difficult by the limits on SLCs, PICCs, and CCL, which may result in the rate level impacting the amount of costs to be moved from one pool to another. For a more comprehensive discussion of the pooling problems associated with the Commission's recommendations, see HSA Comments at pages 7 and 8.

The revisions to the average schedule formulas, required to reflect the changes for cost companies, will take some time to work out. The Commission should provide adequate time for the Industry to address average schedule formula issues, as recommended by NECA.

In paragraph 46 of the Notice, the Commission requests comment on the use of the same SLC and PICC equivalency ratios for rate-of-return carriers as was prescribed for price cap carriers. North State supports the use of the same ratios. There is no need to develop additional record for this item.

In paragraph 50 of the Notice, the Commission identifies the current process of allocating Local Switching costs between the state and interstate jurisdictions. In this proceeding, the Commission has proposed rate restructures which would significantly reduce the per-minute Local Switching rates. North State agrees with comments of other parties that the revisions to Local Switching Access Charges should be coordinated with revisions to Separations procedures affecting the amount of Local Switching assigned to the interstate jurisdiction.[12]

---

[12] See HSA Comments at page 9.

In paragraph 92 of the Notice, the Commission requests comment on any other cost allocation modifications required in this proceeding. North State agrees with HSA's Comments that the Commission review its Part 69 cost allocation procedures for rate-of-return carriers related to OB&C expenses.[13] North State recommends that since the primary purpose of OB&C is to provide billing for basic services and since basic services are a common cost of access to state and interstate services, that the majority of OB&C costs assigned to interstate should be assigned to the Common Line category. As noted by Bear Lake, Bristol Bay, Central Utah and other Commenters, the Commission proposal to assign additional costs to Billing and Collection, through GSF allocations, will only make it harder to provide Billing & Collection services to Interexchange Carriers; and, with recent problems with cramming, many ILECs may not choose to continue to provide such services. If the Commission were to correct the problem with OB&C, it might be able to implement GSF allocations changes and not risk forcing some ILECs out of the Billing and Collection business. Although North State is an average schedule company, it is impacted by separations and access issues related to Billing & Collection because its average schedule settlements are based on cost company allocated costs.

In conclusion, North State again urges the Commission to recognize the distinct differences between Price Cap Carriers and rate-of-return carriers. North State urges the Commission to proceed with access reform at the same time it addresses Universal Service matters in order to address cost recovery assigned to common costs adequately for smaller carriers.

---

[13] See HA Comments at page 10.

Respectfully Submitted,
North State Telephone Company

September 17, 1998

By: Royster Tucker III

Mr. Royster Tucker III
Assistant Secretary/Treasurer
North State Telephone Company
111 North Main Street
High Point, NC 27261
(336) 886-3617